

# **Report of the auditor-general Northern Cape provincial legislature and the council on Hantam Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Hantam Local Municipality set out on pages **XX** to **XX**, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### **Property, plant and equipment**

6. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for property, plant and equipment, due to the status of the accounting records and non-submission of information in support of differences noted between the annual financial statements, general ledger and asset register. I was unable to confirm these differences by alternative means. Consequently, I was unable to determine whether any further adjustments to property plant and equipment relating to infrastructure assets stated at R137 918 376 (2015: R131 106 471), community property stated at R8 088 779 in note 10 to the financial statements were necessary.
7. During 2015, the municipality did not record property plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. not have adequate systems to maintain records of property, plant and equipment. This resulted in land and buildings and accumulated surplus being understated by R7 288 761.

### **Capital commitments**

8. I was unable to obtain sufficient appropriate audit evidence for commitments disclosed in note 35 to the financial statements as the municipality did not maintain accurate and complete records of commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment to commitments stated at R21 754 831 was necessary.

### **Correction of error**

9. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures of financial statement line items included in property plant and equipment and investment property. As described in note 45 to the financial statements, the restatement was to rectify the previous year's misstatements. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to these corresponding figures were necessary. My opinion on the 2015-16 financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Cash flow statement**

10. The municipality did not prepare the cash flow statement as required by GRAP 2 *Cash flow statements*, as the cash flow statement included non-cash items.

## **Qualified opinion**

11. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Hantam Local Municipality as at 30 June 2016 and financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA

## **Emphasis of matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Material losses**

13. As disclosed in note 44 to the financial statements, the municipality suffered water losses of 13.03% with a value of R1 244 906, as well as electricity losses of 25.46% with a value of R4 892 660.
14. As disclosed in note 16 to the financial statements, material losses to the amount of R1 498 335 were incurred as a result of the write-off of irrecoverable receivables.

### **Material Impairments**

15. As disclosed in note 26 to the financial statements, material impairments of R2 576 206 were reported by the municipality as a result of the impairment of irrecoverable receivables.

### **Irregular Expenditure**

16. As disclosed in note 33. to the financial statements, the municipality incurred irregular expenditure of R4 548 520 (2015: R3 803 565) during the year under review mainly due to non-compliance with supply chain management requirements. The total amount of irregular expenditure recorded in the annual financial statements at 30 June 2016 amount to R2 569 772 (2015: R3 803 565).

## **Additional matters**

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited supplementary schedules**

18. The supplementary information set out on Appendices A to E does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## Unaudited disclosure notes

19. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Report on other legal and regulatory requirements

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

21. The annual performance report of the municipality was not presented for auditing and consequently my findings below are limited to the procedures performed in respect of the following selected objectives as contained in the strategic planning and performance management documents:

Objective 1: sustainable infrastructure and development – pages x to x

Objective 4: maintain a financially sustainable and viable municipality – pages x to x

Objective 5: promote good governance and public participation – pages x to x

22. I assessed the information to determine whether the performance indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI)

23. The material findings in respect of the selected objectives are as follows:

### **Sustainable infrastructure and development**

#### Usefulness of performance information

24. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 100% indicators were not verifiable

## **Maintain a financially sustainable and viable municipality**

### Usefulness of performance information

25. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 100% indicators were not verifiable.

## **Promote good governance and public participation**

### Usefulness of performance information

26. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 100% indicators were not verifiable

## **Compliance with legislation**

27. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Strategic planning and performance management**

28. The municipality did not establish a performance management system as required by section 38(a) of the MSA or the Municipal planning and performance management regulation (8)
29. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services and annual budget did not indicate projections for each month of the revenue to be collected, by source and/or the operational and capital expenditure, by vote

## **Financial statements, performance and annual reports**

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, non-current liabilities, reserves and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements of property, plant and equipment, commitments, cash flow statement and correction of error resulted in the financial statements receiving a qualified audit opinion.
31. The 2014/15 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

32. The annual performance report was not prepared for the financial period under review, as required by section 46 of the MSA.
33. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

## **Conditional Grants**

34. The municipality did not evaluate its performance in respect of programmes funded by the Financial Management Grant (FMG), Municipal Infrastructure Grant (MIG), Expanded Public Works Programme (EPWP) and Regional Bulk Infrastructure Grant (RBIG) allocation, as required by section 12(5) of the Division of Revenue Act.

## **Human resource management and compensation**

35. Appointments were made in the post of IDP manager that were not advertised, in contravention of section 56(3) of Municipal Systems Act.

## **Procurement and contract management**

36. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM Regulation 17(a) and (c).
37. Quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(b).
38. Bids were not always evaluated by bid evaluation committees which were composed at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
39. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
40. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
41. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

## **Expenditure management**

42. Reasonable steps were not taken to prevent unauthorized, irregular as well as fruitless expenditure, as required by section 62(1)(d) of the MFMA.

## **Asset management**

43. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a)

## **Consequence management**

44. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2)(a)(i) of the Municipal Financial Management Act.

## **Internal control**

45. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

46. The leadership's philosophy and operating style is not contributing towards clean administration. This is evidenced by the lack of implementation and monitoring of action plans to address prior year audit findings, the establishment of a culture honestly, ethical business practices and good governance. Leadership failed to appoint sufficient appropriately skilled staff in key positions within the finance unit and the training and development initiatives failed to address the underlying deficiencies that caused matters reported on repeatedly.
47. An annual performance report was not prepared and submitted due to management not monitoring and exercising control over the preparation of the financial statements, the report on predetermined objectives, compliance with laws and regulations and internal control.

## **Financial and performance management**

48. Management did not adequately monitor reporting, compliance with laws and regulations and internal control as supporting documentation submitted during the audit did not support disclosures. The inability of management to address prior year audit findings and staff in finance not understanding the requirements of the financial reporting framework is concerning. Management's lack of commitment to address repetitive findings relating to supply chain management regulations is indicative of financial misconduct.
49. Management did not implement controls over record keeping to ensure that complete, relevant and accurate annual financial statements and performance reporting.

## **Governance**

50. The risks which emanated from the prior year audit report were not addressed through the implementation of a risk management strategy. The internal audit did not perform any internal audits during the year.
51. The audit committee did not monitor the implementation of audit action plans, resulting in the internal control environment over financial information and compliance with laws and regulations being ineffective.

## **Investigations**

52. During the period management discovered that an employee had committed fraud by not banking the required prepaid electricity monies received.

*Auditor General.*

Kimberley

30 November 2016



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